

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Benton Twp -Pottersville District Library	County Eaton
Fiscal Year End 6/30/07	Opinion Date 12/21/07	Date Audit Report Submitted to State 2/7/08	

We affirm that:

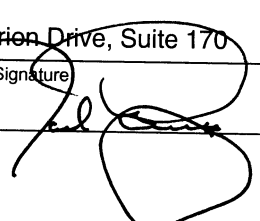
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES                                 | NO                                  | Check each applicable box below. (See instructions for further detail.)   |
|-------------------------------------|-------------------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.  |
| <input type="checkbox"/>            | <input checked="" type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 4. The local unit has adopted a budget for all required funds.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 5. A public hearing on the budget was held in accordance with State statute.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 8. The local unit only holds deposits/investments that comply with statutory requirements.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input type="checkbox"/>            | <input checked="" type="checkbox"/> | 11. The local unit is free of repeated comments from previous years.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 12. The audit opinion is UNQUALIFIED.   |
| <input type="checkbox"/>            | <input checked="" type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 14. The board or council approves all invoices prior to payment as required by charter or statute.  |
| <input type="checkbox"/>            | <input checked="" type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely.  |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.		Telephone Number (517) 323-9500		
Street Address 6636 Centurion Drive, Suite 170		City Lansing	State MI	Zip 48917
Authorizing CPA Signature 		Printed Name Mark Perry		License Number 1101018885

**Benton Township –  
Potterville District Library**

**Potterville, Michigan**

**Annual Financial Statements  
and  
Auditors' Report**

**June 30, 2007**

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## Independent Auditors' Report

To the Board of Trustees  
Benton Township – Potterville District Library  
Potterville, Michigan

We have audited the accompanying financial statements of the governmental activities and fund of the Benton Township – Potterville District Library as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Benton Township – Potterville District Library's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and fund of the Benton Township – Potterville District Library as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

*Yeo & Yeo, P.C.*

Lansing, Michigan  
December 21, 2007

**Benton Township - Potterville District Library**  
**Governmental Fund Balance Sheet/Statement of Net Assets**  
**June 30, 2007**

	General Fund - Modified Accrual Basis	Adjustment (Note 5)	Statement of Net Assets - Full Accrual Basis
<b>Assets</b>			
Cash	\$ 44,936	\$ -	\$ 44,936
Certificate of deposit	26,580	-	26,580
Accounts receivable	29,690	-	29,690
Capital assets, net of accumulated depreciation of \$ 300,218	-	219,479	219,479
<b>Total assets</b>	<u><u>\$ 101,206</u></u>	<u><u>\$ 219,479</u></u>	<u><u>\$ 320,685</u></u>
<b>Liabilities and fund balance/net assets</b>			
<b>Liabilities</b>			
Accounts payable	\$ 1,866	\$ -	\$ 1,866
Accrued payroll	3,374	-	3,374
Deferred revenue	29,690	(29,690)	-
Long-term liabilities - current	-	69,211	69,211
<b>Total liabilities</b>	<u><u>34,930</u></u>	<u><u>39,521</u></u>	<u><u>74,451</u></u>
<b>Fund balance/net assets</b>			
Investment in capital assets, net related debt	-	179,958	179,958
Unrestricted	66,276	-	66,276
<b>Total fund balance/net assets</b>	<u><u>66,276</u></u>	<u><u>179,958</u></u>	<u><u>246,234</u></u>
<b>Total liabilities and fund balance/net assets</b>	<u><u>\$ 101,206</u></u>	<u><u>\$ 219,479</u></u>	<u><u>\$ 320,685</u></u>

See accompanying notes to financial statements

**Benton Township - Potterville District Library**  
**Statement of Governmental Revenue, Expenditures and**  
**Changes in Fund Balance/Statement of Activities**  
**For the Year Ended June 30, 2007**

	General Fund - Modified Accrual Basis	Adjustments (Note 5)	Statement of Activities - Full Accrual Basis
Revenues			
Taxes	\$ 58,091	\$ -	\$ 58,091
State aid	2,821	-	2,821
Rental fees	856	-	856
Penal fines	22,814	6,876	29,690
Interest and penalties	1,202	-	1,202
Contributions and miscellaneous	5,349	540	5,889
Total revenues	91,133	7,416	98,549
Expenditures			
Salaries	29,925	-	29,925
Books	5,723	(5,723)	-
Tapes	422	(422)	-
Equipment	1,410	(911)	499
Supplies	2,333	-	2,333
Repairs and maintenance	3,167	-	3,167
Professional services	4,148	-	4,148
Program expense	812	-	812
Dues and subscriptions	4,253	-	4,253
Telephone	928	-	928
Utilities	3,118	-	3,118
Insurance	3,571	-	3,571
Payroll taxes	2,804	-	2,804
Depreciation	-	14,856	14,856
Miscellaneous expenses	730	-	730
Debt service			
Principal retirement	8,292	(8,292)	-
Interest	3,318	-	3,318
Total expenditures	74,954	(492)	74,462
Revenues over expenditures/ change in net assets	16,179	7,908	24,087
Fund balance/net assets - beginning	50,097	172,050	222,147
Fund balance/net assets - ending	\$ 66,276	\$ 179,958	\$ 246,234

See accompanying notes to financial statements

**Benton Township – Potterville District Library**  
**Notes to Financial Statements**  
**June 30, 2007**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Benton Township – Potterville District Library (the Library) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library:

ORGANIZATION

The Library was established on November 13, 1989, by a district library agreement between the Township of Benton and the City of Potterville pursuant to the District Library Establishment Act. The Library's boundaries include the City of Potterville, Michigan and the Township of Benton, Michigan. The Library is funded through a tax levy on property located within the district, penal fines, fees, contributions, and state aid.

REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Accordingly, there are no component units to be included in the Library's financial report.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The Library has one fund, the General Fund, which is the Library's primary operating fund. The General Fund is budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

In addition to presenting information for the General Fund, the statements combine all fund activity and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Benton Township – Potterville District Library**  
**Notes to Financial Statements**  
**June 30, 2007**

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**BUDGET INFORMATION**

The annual budget is prepared by Library management and adopted by the Library Board of Trustees; subsequent amendments are approved by the Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Public Act 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. A local unit is not considered in violation of the Act if reasonable procedures are in use by the Library to detect violations. The Act requires expenditures to be budgeted on a functional basis.

During the year ended June 30, 2007, the Library incurred expenditures which were in excess of the amounts appropriated, as follows:

<u>Function</u>	<u>Total Budget</u>	<u>Amount of Expenditures</u>	<u>Amount over Budget</u>
Books	\$ 5,000	\$ 5,723	\$ 723
Repairs and maintenance	1,500	3,167	1,667
Miscellaneous expenses	100	730	630

**FINANCIAL STATEMENT AMOUNTS**

**Capital Assets** - Generally, capital assets are defined by the Library as assets with an initial cost of more than \$ 500 and an estimated useful life in excess of two years. Such assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Library books, CDs, tapes, videos and DVDs which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite individually being below the \$ 500 capitalization threshold.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred.



**Benton Township – Potterville District Library**  
**Notes to Financial Statements**  
**June 30, 2007**

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Depreciation on capital assets is charged as an expense against the operations on a straight-line basis over the following estimated useful lives:

Building	50	years
Furniture and equipment	5 - 20	years
Books and videos	7	years

**Property Taxes** - Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due on September 15 with the final collection date of February 28 before they are added to the country tax rolls. The Library's property tax revenue for the fiscal year ended June 30, 2007 is based on the 2006 levy, which was billed July 1, 2006. The 2006 taxable value totaled \$ 125,638,303; the Library's millage rate was .4655 mills, which resulted in property tax billings of \$ 58,485.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**NOTE 2 - CAPITAL ASSETS**

A summary of the changes in capital assets follows:

<u>Capital Assets Being Depreciated</u>	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Building	\$ 216,423	\$ -	\$ -	\$ 216,423
Furniture and equipment	53,494	1,450	-	54,944
Books and videos	255,898	6,145	13,713	248,330
Total	525,815	7,595	13,713	519,697
Accumulated depreciation	<u>(299,075)</u>	<u>(14,856)</u>	<u>(13,713)</u>	<u>(300,218)</u>
Net book value	<u>\$ 226,740</u>	<u>\$ (7,261)</u>	<u>\$ -</u>	<u>\$ 219,479</u>

**Benton Township – Potterville District Library**  
**Notes to Financial Statements**  
**June 30, 2007**

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Capital assets, including library books, periodicals, CDs, tapes and DVDs, are recorded at cost. Depreciation expense was \$ 14,856 for the year ended June 30, 2007.

**NOTE 3 - DEFERRED REVENUE**

Penal fines are reported as deferred revenue in connection with receivables for revenue that is not available to cover expenses in the current fiscal year. At the end of the current fiscal year, deferred revenue is as follows:

	<u>Unavailable</u>
Penal fines	<u>\$ 29,690</u>

**NOTE 4 - LONG-TERM DEBT**

On August 21, 2002, the terms of the library building loan were amended, lowering the interest rate from 5.750% to 4.500% and extending the term through August 21, 2007. Under the new terms, the loan is payable in monthly installments of \$ 967.53 with a balloon payment for the balance of the loan with interest being due on August 21, 2007.

Aggregate maturities of long-term debt are summarized as follows:

<u>Year ended</u>	<u>Amount</u>
June 30, 2008	<u>\$ 69,211</u>

**NOTE 5 - RISK MANAGEMENT**

The Library is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Library participates in the Michigan Municipal League Program for claims relating to workers' compensation, general liability, and property loss. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 6 - RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT -WIDE FINANCIAL STATEMENTS**

Total fund balance and the net change in fund balance of the Library's General Fund differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities.

**Benton Township – Potterville District Library**  
**Notes to Financial Statements**  
**June 30, 2007**

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This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance.

**NOTE 7 - SUBSEQUENT EVENT - DEBT REFINANCING**

Subsequent to year end, the Benton Township - Potterville District Library refinanced the building loan by issuing Refunding Bonds. The Bonds were issued November 1, 2007 in the amount of \$ 70,000 with an interest rate of 5.25% and principal and interest payable over a 96-month period.

## **Required Supplementary Information**

**Benton Township - Potterville District Library**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2007**

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	Original and Final Budget	Actual Balances	Variance Over (Under)
Revenues			
Taxes	\$ 55,500	\$ 58,091	\$ 2,591
State aid	4,000	2,821	(1,179)
Rental fees	1,200	856	(344)
Penal fines	21,500	22,814	1,314
Interest and penalties	125	1,202	1,077
Contributions and miscellaneous	-	5,349	5,349
Total revenues	<u>82,325</u>	<u>91,133</u>	<u>8,808</u>
Expenditures			
Salaries	30,000	29,925	(75)
Books	5,000	5,723	723
Tapes	500	422	(78)
Equipment	2,775	1,410	(1,365)
Supplies	3,540	2,333	(1,207)
Repairs and maintenance	1,500	3,167	1,667
Professional services	4,500	4,148	(352)
Program expense	1,000	812	(188)
Dues and subscriptions	5,500	4,253	(1,247)
Telephone	1,000	928	(72)
Utilities	3,500	3,118	(382)
Insurance	4,000	3,571	(429)
Payroll taxes	5,000	2,804	(2,196)
Miscellaneous expenses	100	730	630
Debt service	11,610	11,610	-
Total expenditures	<u>79,525</u>	<u>74,954</u>	<u>(4,571)</u>
Revenues over expenditures	<u>\$ 2,800</u>	<u>16,179</u>	<u>\$ 13,379</u>
Fund balance - beginning		<u>50,097</u>	
Fund balance - ending		<u>\$ 66,276</u>	



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December 21, 2007

To the Board of Trustees and management  
of Benton Township – Potterville District Library

In planning and performing our audit of the financial statements of Benton Twp-Potterville District Library (the Library) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Benton Twp-Potterville District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

#### **Financial Statement Preparation Controls**

In conjunction with our audit, we have proposed material audit adjustments and been contracted to prepare the financial statements and related disclosures based on the information provided to us by management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the Library's financial statements. However, if at any point in the audit we as auditors are part of the Library's control system for producing reliable financial statements, auditing standards indicate that the Library has a control deficiency. The proposal of audit adjustments and preparation of financial statements and disclosures, even from information provided by management, meets this definition and is, therefore, a control deficiency. We recommend that management and those charged with governance evaluate and document their informed decision on the costs and benefits of contracting for this service with our firm.

### **Use of QuickBooks Software**

The Library uses QuickBooks software to manage the general ledger and payroll functions. QuickBooks is user friendly and meets the Library's need to keep the accounting system simple. However, the system allows, but does not require, a "close" of each month. If this close function is not used, transactions can be backdated to the prior period, thus changing the previously reported financial statements. Therefore, we recommend that the Organization implement QuickBooks' close feature monthly, including restricting access to prior-period data, or consider changing to a system that does require a monthly close. Adjustments to prior periods negate the validity of historical information. A monthly close will eliminate the ability to backdate. In addition, QuickBooks allows the user to change various aspects of the recorded data which could potentially have an adverse effect on the Library's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. In addition, the account numbers function is not being used in QuickBooks causing the Library to not be in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.

### **Bank Reconciliations**

As part of the internal control process, bank accounts should be reconciled on a timely basis. We noted that certain bank reconciliations were not performed on a timely basis. We recommend that monthly reconciliations of pertinent bank accounts be completed prior to the end of the following month. In addition we recommend that all reconciliations be reviewed by someone who is not involved in the reconciliation process.

This review should be documented with initialing and dating of the reconciliation. The reconciliation process helps to detect any errors or frauds that may have occurred within an account.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We consider the following significant deficiency to be a material weakness.

### **Audit Journal Entries**

We noted that several years of audit journal entries have not been posted to the Library's accounting records. These un-posted entries could result in a serious misstatement of the Library's assets, liabilities, and fund balances. Not posting these journal entries, results in inaccurate financial reports.

It is management's responsibility to record and reconcile all accounts. New and revised accounting and auditing standards requires that management properly record and reconcile all of the Library's activity and continue to limit an auditor's role in the preparation of financial records.

We recommend that all journal entries, past and present, be posted to the Library's records so meaningful account reconciliations can be performed and accurate reports can be prepared.

Board of Trustees  
Benton Township – Potterville District Library  
Page 3  
December 21, 2007

This communication is intended solely for the information and use of the Library's Board of Trustees, management, and others within the administration, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Yeo & Yeo, P.C.*

Lansing, Michigan  
December 21, 2007